



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

February 5, 1999

H.R. 436 **Government Waste, Fraud, and Error Reduction Act of 1999**

*As ordered reported by the House Committee on Government Reform
on February 3, 1999*

SUMMARY

H.R. 436 would amend the Debt Collection Improvement Act (DCIA) of 1996. The bill would bar delinquent debtors from obtaining certain federal benefits, authorize the Financial Management Service (FMS) of the Department of the Treasury to offset certain benefit payments to collect past-due child support, and require federal agencies to sell certain assets and to report annually to the Congress on debts over \$1 million.

Enacting H.R. 436 would affect direct spending, and pay-as-you-go procedures would apply to the bill. Specifically, CBO estimates that offsetting Social Security payments to collect past-due child support would increase federal collections by less than \$500,000 in fiscal year 1999, by \$2 million in fiscal year 2000, and by \$4 million each year thereafter. In addition, subject to the availability of appropriated funds, CBO estimates that implementing H.R. 436 would increase federal reporting costs by less than \$500,000 in fiscal year 1999, by about \$1 million in fiscal year 2000, and by less than \$500,000 each year thereafter.

H.R. 436 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no additional costs on the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 436 is shown in the following table. For the purposes of this estimate, CBO assumes the bill will be enacted by the summer of 1999 and that the amounts necessary to implement the bill will be appropriated for each year. The costs of this legislation fall within multiple budget functions.

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	a	-2	-4	-4	-4	-4
Estimated Outlays	a	-2	-4	-4	-4	-4
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	a	1	a	a	a	a
Estimated Outlays	a	1	a	a	a	a
a. Less than \$500,000.						

BASIS OF ESTIMATE

Direct Spending

While much of H.R. 436 would codify current practice, a few provisions would affect collections of the federal government from both past-due child support and delinquent nontax debt. In total, CBO estimates that implementing these provisions would decrease direct spending by \$18 million over the 1999-2004 period.

Increasing the Federal Share of Collections from Past-Due Child Support. H.R. 436 would allow states to collect past-due child support by withholding Social Security, Black Lung, and Railroad Retirement Board (RRB) payments. CBO estimates that adding past-due child support to the list of debts that can be administratively offset from those payments would result in \$10 million more in annual child support collections, of which the federal government would, on average, retain \$4 million. We expect those levels to apply beginning in fiscal year 2001, with smaller effects in earlier years.

The Social Security Administration can withhold past-due child support payments from monthly checks under current law, but the process is not used much and an insignificant amount is collected annually. H.R. 436 would make the process easier to administer and would thus result in higher child support collections.

Based on data from the Survey of Income and Program Participation (SIPP) and calculations by the Urban Institute, CBO estimates that 25,000 noncustodial parents both receive Social

Security benefits and have unpaid child support. Because parents affected by the legislation are generally younger than 62, we assume that most of them receive Social Security benefits under the Disability Insurance (DI) program rather than the retirement or survivors programs. (As with the collection of delinquent federal debt, we assume that payments made under the Supplemental Security Income program would be exempt from the administrative offset.) The DCIA limits the amount that can be withheld annually from an individual's Social Security checks to the lesser of any amount over \$9,000 or 15 percent of the benefits. Only one-half of the noncustodial parents are assumed to receive benefits high enough to allow FMS to offset their payments. On average, those offsets could amount to about \$1,600 annually and could yield \$20 million in collections for child support from Social Security payments. (CBO expects that the annual increase in collections from RRB and Black Lung payments would be insignificant.)

CBO estimates that the additional collections under H.R. 436 would be only about one-half of the potential \$20 million because of several factors. First, noncustodial parents are younger than average DI recipients, and younger men receive lower DI benefits than older men. Second, children of DI recipients are entitled to a benefit from Social Security that averages more than \$2,000 annually. Some states consider these benefits in determining the amount of the child support owed by the noncustodial parent. Consequently, those children probably have lower-than-average child support awards and the Social Security offset would be lower than average. Finally, CBO assumes that a small percentage of all noncustodial parents owing past-due child support would slip through the administrative offset process.

The estimated \$10 million in additional child support collections each year would result in a net increase in federal offsetting receipts of \$4 million annually. The estimate assumes that 70 percent of new collections would be on behalf of families that receive or formerly received cash assistance from the federal government's Temporary Assistance to Needy Families (TANF) program or its predecessors. Such collections are retained by federal and state governments as reimbursements for past cash assistance paid to families. The federal share of TANF collections is 53 percent.

CBO assumes that states would not fully participate in the program until 2001. Increases in DI benefit levels and the amounts required for child support under court orders would result in higher federal receipts over time, but new rules affecting how much of the child support payments the federal government can retain would have an opposite effect. CBO estimates that those two effects would offset each other.

Decreasing the Collection of Delinquent Nontax Debt. Allowing FMS to offset Social Security, Black Lung, and RRB payments to collect past-due child support payments would

decrease the collection of delinquent nontax debt. CBO estimates, however, that this change would increase direct spending by less than \$500,000 annually.

Under existing law, the collection of child support on behalf of a family that receives or formerly received TANF benefits takes precedence over the collection of delinquent federal debt in the payment offset process. That is, if before making a federal salary or pension payment, FMS discovers that the payee owes past-due child support, received TANF benefits, and is delinquent on a federal loan, then FMS must first offset the salary or pension payment to collect the child support. Once the child support is collected, FMS can then further offset the payment to collect the delinquent debt, provided that sufficient funds remain. CBO assumes that same order of priority would apply to collections involving Social Security and the other payments.

The DCIA allows the use of offsets against Social Security payments to collect delinquent nontax debt; FMS expects to implement that authority by the spring of 1999. According to the Department of the Treasury and Price Waterhouse, which conducted a test matching a month's worth of Social Security payments against the database of debts referred to FMS, between \$37 million and \$61 million in delinquent federal debts could eventually be collected from Social Security payments each year. Based on information from that test and CBO's estimate of the increased collection of past-due child support, CBO estimates that the collection of federal debt—primarily for loan repayments and recoveries for defaults on loan guarantees—would decline by less than \$500,000 a year.

The Federal Credit Reform Act of 1990 requires that legislation altering the estimated subsidy cost for direct loans and loan guarantees be scored on a present-value basis. For existing loans and guarantees, the amount of an estimated change in the present value of credit cash flows is recorded in the budget in the year in which the legislation is enacted—in this case, in fiscal year 1999. Based on CBO's estimate of the cash value of the forgone collections, we estimate that the provision's effect on delinquent nontax debt would increase direct spending by less than \$500,000.

Authorizing Private Collection Agencies to Verify Employment Information. H.R. 436 could increase the collection of federal debt by clarifying that private collection agencies can verify the employment information of a federal debtor for the purpose of garnishing the individual's wages. FMS only recently issued the final regulations to implement the authority provided under the DCIA; thus, private collection agencies have yet to use wage garnishment to collect delinquent federal debts assigned to them. In addition, the DCIA authorizes collection agencies to verify a debtor's employment information, although other laws may

restrict this authority. CBO estimates that any increase in collections from enacting the provision would be negligible.

Barring Delinquent Nontax Debtors from Obtaining Federal Benefits. Finally, the bill would amend the provision in the DCIA banning delinquent nontax debtors from obtaining certain federal benefits. Specifically, the bill would broaden the definition of benefits to include federal licenses and fees. The bill would allow the Secretary of the Treasury to exempt certain debts and would allow agencies that issue permits and licenses to exempt those items from the ban. Adding federal licenses and fees to the definition of benefits could increase collections of delinquent debt. In addition, to the extent that a delinquent high-value debtor does not obtain a license or permit, the provision would decrease the collection of fees. CBO estimates that the changes would have a negligible effect on direct spending.

Spending Subject to Appropriation

H.R. 436 also would affect agencies' discretionary costs for collecting debts and for managing federal travel. In total, CBO estimates that, subject to the availability of appropriated funds, implementing H.R. 436 would increase federal costs by less than \$500,000 in fiscal year 1999, by less than \$1 million in fiscal year 2000, and by less than \$500,000 each year thereafter. In addition, requiring that agencies sell certain debts and allowing them to recoup more of their costs from the proceeds of such sales could further affect discretionary costs, but we have no basis for estimating the impact from any potential sales that might arise under the bill.

Reports and Regulations. H.R. 436 would require (1) GSA to write regulations and file both a plan and a report with the Congress by March 31, 2000, on improving the management of federal travel; (2) FMS to revise several of the regulations it has issued for implementing provisions of the DCIA; (3) agencies to report to the Congress each year nontax debts of more than \$1 million; and (4) the inspectors general at such agencies to periodically review and report to the Congress on the agencies' efforts to collect nontax debt, particularly debts of more than a \$1 million. In total, CBO estimates that implementing these provisions would increase administrative costs at agencies by less than \$500,000 in fiscal year 1999, by \$1 million in fiscal year 2000, and by less than \$500,000 each year thereafter. Based on information provided by GSA, CBO estimates that any savings in federal travel costs from the new regulations would be small.

Security Clearances. The bill would clarify that, to the maximum extent practicable, private collection agencies are responsible for all administrative costs related to their servicing of

federal debts. The federal government is currently paying the cost to obtain special security clearances for certain, high-level employees at collection agencies. Because the clearances are a one-time requirement for a few employees at each collection agency, CBO estimates that the savings from enacting this provision would be negligible.

Asset Sales. H.R. 436 could further affect discretionary costs because it would amend the existing authority for agencies to sell assets. Specifically, subject to appropriation, it would allow agencies to sell any nontax debt and would, in general, require that agencies sell any loan that is more than two years delinquent and any new loan within six months of its disbursement. The bill would provide broad authority for agencies to exempt loans from the requirement. Currently, agencies can sell debts that are more than 90 days delinquent and are generally required to sell debts for which they have terminated their collection efforts. In addition, H.R. 436 would expand the types of expenses for which agencies can retain a portion of the proceeds from such sales, including the costs of contracts for collection services; fees of appraisers, auctioneers, and realty brokers; and costs of advertising and surveying. CBO has no basis for predicting how these changes would affect agencies' asset sales and related spending.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	-2	-4	-4	-4	-4	-4	-4	-4	-4	-4
Changes in receipts	Not applicable										

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 436 contains no intergovernmental mandates as defined in UMRA. Provisions in the bill that would allow states to collect past-due child support from certain types of federal benefit payments would result in net additional state collections totaling about \$3 million annually.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains no private-sector mandates as defined in UMRA.

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